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Approved For Release 2006/07/30 : CIA-RDP79R00904A000100040019-9

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26 October 1953

MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: US Economic Aid to Bolivia

1. My understanding of the question which you presented orally was: why does the US give aid and countenance to a Bolivian regime which seized power by force and then proceeded to dispossess the rightful owners of the tin mines?
2. The Bolivian tin mines were owned by three major interests: Aramayo (Bolivian-Spanish), Hochschild (British-Chilean-Bolivian), and Patino (Bolivian-European-US). The US interest, 30-50 percent of Patino, was in part a cloak for European interests.
3. The Bolivian economy is absolutely dependent on sales of tin to the US government. Bolivian tin is a high cost product not normally competitive in the world market. Production has been subsidized by US purchases in order to maintain a Western Hemisphere source, for strategic reasons.
4. In March 1951 the RFC refused to make further purchases of Bolivian tin on the ground that the price was exorbitant (\$1.85 per pound as against a world price of \$1.21). This decision in effect deprived the incumbent conservative government of US support.
5. In the presidential election of May 1951 Paz Estenssoro (the present President) won a substantial plurality, but he was prevented from taking office by an Army coup. In April 1952 the Army regime was overthrown by the Police and armed civilians and Paz was recalled from exile to assume the Presidency.
6. The tin mines were nationalized in October 1952 as part of a radical political program which also includes agrarian reform.
7. Despite the radical character of this program, it has become apparent that the Paz regime is the most moderate which could be expected to survive in Bolivia at this time and that it

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is willing to cooperate with the United States within the limits of the feasible in Bolivian politics. The alternative to Paz is not a more conservative regime, but a more radical, probably crypto-Communist, one.

8. Facing a desperate economic situation, the Paz regime pleaded for a resumption of US tin purchases. The US refused to buy, however, until Bolivia made arrangements for compensation acceptable to the expropriated tin companies. A compensation agreement having been reached, the US has made a one-year contract to purchase Bolivian tin at the world price, now 32 cents.

9. Losses of foreign exchange through the stoppage of US tin purchases and their resumption at the reduced world price have made it impossible for Bolivia to pay for essential imports of foodstuffs. To avert actual famine the US has made an emergency donation of surplus food. To reduce Bolivian dependence on such imports the US has also granted Point IV aid for the improvement of Bolivian agriculture.

10. In view of the foregoing, the considerations affecting the US decision to aid Bolivia would appear to be:

- a. Recognition that Paz has fair pretensions to de jure as well as de facto authority;
- b. Recognition that Bolivia has undertaken to compensate the expropriated tin companies on terms which they have accepted;
- c. A desire to keep the Bolivian tin industry in being for strategic reasons;
- d. A desire to avoid repeating the apparent mistake of 1951, US economic aid being essential to prevent the fall of Paz and the succession of a crypto-Communist regime.

11. NIE-104, Probable Developments in Bolivia, is scheduled to reach the IAC in February 1951.

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National Estimates